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C O N F I D E N T I A L STATE 279204

FOLLOWING REPEAT BRASILIA 8859 ACTION SECSTATE INFO RIO DE
JANEIRO SAO PAULO 22 NOV

QUOTE

C O N F I D E N T I A L BRASILIA 8859

E. O. 11652: GDS
TAGS: ETRD, EFIN, BR
SUBJECT: GOB ADOPTS "BUY BRAZIL" TYPE LAW

1. SUMMARY-PRESIDENT GEISEL ON NOVEMBER 19 SIGNED AND ISSUED
DECREE LAW DESIGNED TO RESTRICT IMPORTS BY PUBLIC ENTITIES AT
FEDERAL LEVEL AND BY MIXED ENTERPRISES. GOB TARGET FOR
1975 IS TO HAVE AN IMPORT BILL NO HIGHER THAN IN 1974, WHICH IS
EXPECTED TO BE $12 BILLION. FFINANCE MINISTRY OFFICIAL EMPHASIZED
TO CONGEN RIO EMERGENCY NATURE OF MEASURES IN RESPONSE TO ALARMING
BALANCE OF PAYMENT DEFICIT AND SAID THAT GOVERNMENT WILL ATTEMPT TO
RESTRICT IMPORTS IN 1974 IN ORDER TO HOLD DOWN TRADE DEFICIT.
SPECIAL EFFORTS WILL BE MADE TO INCREASE EXPORTS AND
TO DIMINISH LARGE BILATERAL TRADE DEFICITS. OFFICIAL PROJECTION
FOR BRAZIL'S 1975 GNP GROWTH IS SUBSTANTIALLY REDUCED FROM
10 PERCENT LEVEL ACHIEVED DURING PAST 7 YEARS.
END SUMMARY.

2. THE MAIN POINT OF THE DECREE IS TO PROHIBIT FEDERAL ENTITIES
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AND MIXED (GOVERNMENT-PRIVATE) ENTERPRISES FROM IMPORTING OR

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PURCHASING LOCALLY IMPORTED CONSUMER GOODS, INCLUDING OFFICE MACHINERY AND EQUIPMENT, EXCEPT IN EXCEPTIONAL CIRCUMSTANCES AND WITH PRESIDENTIAL APPROVAL. A WHOLE NEW MACHINERY IS BEING INSTITUTED TO IMPLEMENT THIS SCHEME. IN ADDITION TO MINIMIZING FOREIGN EXCHANGE EXPENDITURES, THE PROGRAM IS ALSO DESIGNED TO STIMULATE DOMESTIC PRODUCTION AND GENERATE EXPORTS. THE ANNOUNCEMENT STATES THAT THE OBJECTIVES OF THESE ACTIONS ARE TO BE ACHIEVED WITHOUT SACRIFICING BRAZIL'S ECONOMIC DEVELOPMENT PROCESS. IMPORTS OF CAPITAL EQUIPMENT, PARTS, AND RAW MATERIALS BY FEDERAL AGENCIES, PUBLIC ENTERPRISES, AND MIXED COMPANIES WILL BE SUBJECT TO FOLLOWING DISCIPLINE:

A. PRIORITY TO PURCHASE OF LOCALLY PRODUCED GOODS, IMPORTING ONLY ESSENTIALS WITHIN APPROVED PROGRAMS;

B. DURING 1975, IMPORTS WILL BE LIMITED TO THOSE SPECIFIED WITHIN PROGRAMS TO BE APPROVED BY THE PRESIDENT;

C. ANNUAL SUBMISSION OF INVESTMENT PROGRAMS, COVERING AT LEAST 4 YEAR PERIOD AND INCLUDING ALL FOREIGN PROCUREMENT, FOR APPROVAL BY MINISTER-SECRETARY OF PLANNING OF THE PRESIDENCY.

D. EACH AFFECTED ORGANIZATION IS REQUIRED TO PREPARE A LIST OF GOODS, NORMALLY UTILIZED BY THESE ENTITIES, WHICH ARE AVAILABLE IN THE DOMESTIC MARKET. (COMMENT: A KIND OF NEGATIVE LIST). FOREIGN PURCHASES AND CONTRACTS WILL REQUIRE PRIOR CONSULTATIONS OR CLEARANCE BY SEVERAL MONITORING AGENCIES;

E. NO INTERNATIONAL BIDDING MAY BE ANNOUNCED WITHOUT PRIOR COMPLIANCE WITH THE PROVISIONS OF THIS DECREE AND THE LAW OF SIMILARS. STATE AND MUNICIPAL GOVERNMENTS ARE ENCOURAGED TO ADOPT SIMILAR MEASURES (CONGEN RIO IS PREPARING TRANSLATION OF FULL DECREE).

3. COMMENT-THIS MOVE BY GOB FORMALIZES EXISTING GUIDANCE TO GOVERNMENT AND MIXED ENTITIES TO MINIMIZE FOREIGN PROCUREMENT. PUBLIC OFFICIALS HAD BEEN SAYING FOR SOME TIME THAT GOB PLANNED TO LIMIT IMPORTS BY PUBLIC SECTOR IN 1975 THROUGH ADMINISTRATIVE PROCEDURES. SINCE NEW MEASURES APPLY TO ENTITIES WHICH CURRENTLY ACCOUNT FOR ABOUT 45-50 PERCENT OF TOTAL IMPORTS,
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GOVERNMENT HOPES TO MAKE A DENT IN IMPORT BILL NEXT YEAR -- CERTAINLY TO KEEP IT BELOW WHAT IT WOULD OTHERWISE HAVE BEEN. ALTHOUGH NO OFFICIAL IMPORT TARGET HAS BEEN ANNOUNCED, OFFICIALS HAVE PRIVATELY AND UNOFFICIALLY TOLD EMBASSY THAT THE GOAL FOR 1975 IS TO HAVE AN IMPORT BILL NOT REPEAT NOT HIGHER THAN IN 1974, WHICH WILL BE ABOUT $12 BILLION.

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FOLLOWING PROVIDED BY CONGEN RIO:
4. ON NOVEMBER 20, 1974, CONGEN OFFICER DISCUSSED BRAZIL'S TRADE POLICY INNOVATIONS WITH CIRO CURY, MEMBER OF INTERNATIONAL ADVISORY STAFF IN MINISTRY OF FINANCE AND CHAIRMAN OF COMMITTEE FOR COORDINATION OF FOREIGN PURCHASING POLICIES (CCPCE). CIRO CURY EMPHASIZED THAT RESTRICTIONS ON IMPORTS ARE EMERGENCY MEASURES ADOPTED BECAUSE OF ALARMING B/P DEFICT CAUSED BY PETROLEUM PRICES BUT ALSO, AND ESPECIALLY, BY EXCESSIVE IMPORTS OF RAW MATERIALS AND INTERMEDIATE GOODS FOR INVENTORY BUILD-UP. RESTRICTIVE MEASURES DO NOT REFLECT CONSCIOUS GOVERNMENT DESIRE TO GAIN AND HOLD GREATER CONTROL OVER ECONOMY. RATHER, THEY ARE ATTEMPTING TO DIMINISH CURRENT ACCOUNT DEFICIT AND TO HOLD NON-OIL TRADE DEFICIT IN 1975 TO $2 BILLION. (EMBASSY NOTE: SINCE THIS WOULD MEAN AN OVERALL TRADE DEFICIT CLOSE TO THAT OF 1974, THIS ESTIMATE APPEARS TOO HIGH.) SECERITY AND DURATION OF MEASURES WILL DEPEND HEAVILY ON PRIVATE SECTOR'S RESPONSE TO GOB URGINGS FOR COOPERATIONM

5. PRESIDENT'S DECREEE TO PROHIBIT GOVERNMENT SECTOR FROM PURCHASING IMPORTED CONSUMER GOODS WAS FIRST STEP IN IMPLEMENTING NEW POLICY. NEXT WILL FOLLOW PRESIDENTIAL INSTRUCTIONS REQUIRING PUBLIC SECTOR ENTITIES TO OBTAIN PRESIDENTIAL APPROVAL FOR THEIR IMPORT PROGRAMS. RESTRICTIVE MEASURES ESTABLISHED FIRST IN PUBLIC SECTOR FOR PYSCHOLOGICAL REASONS. ONCE THESE MEASURES HAVE BEEN IMPLEMENTED, PRESIDENTIAL INSTRUCTION, NOT REPEAT NOT DECREE, WILL BE ISSUED TO CONTROL PRIVATE SECTOR'S IMPORTS. GOVERNMENT WILL ATTTEMPT TO PLACE RESPONSIBILITY FOR ADMINISTRATIO OF PRIVATE SECTOR PROGRAM ON INDUSTRIAL CONFEDERATIONS AND OTHER SECTORAL ORGANIZATIONS. THESE BODIES, COOPERATING WITH GOVERNMENT AGENCIES, WILL PROJECT THEIR SECTORS' IMPORT REQUIREMENTS FOR 1974 AND 1975. THEY WILL SUBTRACT FROM THIS ESTIMATE THE VOLUME OF IMPORTS
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REALIZED IN 1974, THE DIFFERENCE BEING THE AMOUNT THEY WOULD BE AUTHORIZED FOR IMPORT DURING 1975. THIS SYSTEM WILL HOPEFULLY ENABLE THE GOVERNMENT TO BE HIGHLY FLEXIBLE IN MEETING THE ECONOMY'S NEEDS FOR BOTH SUFFICIENT IMPORTS AND A REASONABLY BALANCED EXTERNAL SECTOR.

6. CIRO CURY CLAIMED THAT 1975 WOULD BE CRITICAL YEAR FOR BRAZIL. THE ECONOMY CANNOT AFFORD ANOTHER MASSIVE TRADE DEFICIT. ADMINISTRATIVE PROCEDURES ARE BEING IMPLEMENTED TO HOLD IMPORTS TO $12 BILLION THIS YEAR, BUT MORE DRASTIC MEASURES ARE REQUIRED FOR NEXT YEAR. IN ADDITION TO LIMITING IMPORTS, GOVERNMENT WILL REVIEW ITS EFFORTS TO STIMULATE EXPORTS. THESE EFFORTS WILL NOT INVOLVE GREATER SUBSIDIES, BUT RATHER AN ATTEMPT TO USE LEVERAGE PROVIDED BY BRAZIL'S LARGE IMPORT PURCHASES. IN THIS REGARD, BRAZIL CANNOT AFFORD LARGE BILATERAL

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TRADE DEFICITS WITH INDIVIDUAL COUNTRIES. CURRENT DEFICIT
WITH US,
FOR EXAMPLE, MUST BE REDUCED TO AN "ACCEPTABLE" LEVEL.
US PRIVATE SECTOR MUST BE INDUCED TO PURCHASE MORE FROM BRAZIL
AND USG MUST AVOID IMPOSING FURTHER IMPEDIMENTS ON BRAZIL'S
EXPORTS. IF BILATERAL TRADE CANNOT BE BROUGHT INTO CLOSER
BALANCE, BRAZIL MUST DIVERT SOME OF ITS PURCHASES FROM US TO
OTHER COUNTRIES.

7. IN RESPONSE TO DIRECT QUESTION, CIRO GURY HALTINGLY FORE-
CAST BRAZIL'S GNP GROWTH IN 1975 AT 6 TO 8 PERCENT, PRESUMING
INDUSTRIALIZED NATIONS ACHIEVE A POSITIVE GROWTH RATE OF ONE
TO 2 PERCENT. HE WAS MORE EVASIVE IN ANSWERING QUESTION ABOUT
BRAZIL'S INTERNATIONAL RESERVE POSITIO BY YEAR END. HE SIMPLY
STATED THAT THE DROP IN RESERVES WOULD BE BOTH LARGER THAN
EXPECTED AND MORE THAN DESIRED.

8. COMMENT-THROUGHOUT CONVERSATION, CIRO CURY WAS ESPECIALLY
CAUTIOUS IN HIS CHOICE OFUWORDS. HE CAREFULLY AVOIDED USING
TERMS "BARTER TRANSACTION" TO DESCRIBE PROCEDURE OF INCREASING
EXPORT SALES BY RELATING THEM TO IMPORTS. SIMILARLY, HE CLEARLY
DID NOT WANT TO GIVE IMPRESSION THAT BRAZIL WAS THREATENING TO
RETALIATE AGAINST ANY FURTHER USG MOVES TO RESTRICT BRAZIL'S
EXPORTS. THROUGHOUT CONVERSATION HE EMPHASIZED EMERGENCY
NATURE OF TRADE RESTRICTION PROGRAM AND THE NECESSITY TO PUT
BRAZIL'S EXERNAL SECTOR IN ORDER.
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9. CIRO CURY'S PROJECTION FOR NEXT YEAR'S GNP GROWTH CLEARLY
INDICATES THAT GOVERNMENT HAS LOWERED ITS SIGHTS. INDEED, HIS
QUALIFICATION THAT GROWTH OF 6 TO 8 PERCENT DEPENDS ON INDUSTRI-
ALIZED COUNTRIES ACHIEVING POSITIVE GROWTH RATE SUGGESTS THAT
GOB MAY EVEN BE PREPARED FOR LOWER GROWTH RATE NEXT YEAR.
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